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SUBJECT: KAZAKHSTAN: ECONOMIC AND ENERGY UPDATE, MARCH 1-14, 2009

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¶1. SUMMARY: This information is drawn primarily from the Kazakhstani local press and has not been verified for accuracy.

-- News from the Banking Sector
-- Samruk-Kazyna Updates
-- Unemployment: a Growing Challenge
-- 2009 Harvest Projection
-- Economic Statistics
-- Kazakhstan Seeks Controlling Stake in Trans-Caspian Project
-- Status of Kazakhstan-China Gas Pipeline Project
-- Kazakhstan Returns to Central Asian Power Grid
-- The Atyrau Petrochemical Plant Project
-- New KazMunaiGas Strategy to Sign Contracts
-- Speculation Continues Around MangistauMunaiGas

END SUMMARY.

NEWS FROM THE BANKING SECTOR

¶2. According to the Deputy Prosecutor General of Kazakhstan, Rakhimbek Mamyrbaev, former chairman of BTA Bank Mukhtar Ablyazov and his deputy Zhaksylyk Zharimbetov have been charged with misuse of funds and embezzlement. They are accused of orchestrating a money laundering scheme using fake offshore companies. Kazakhstan's KazTAG news agency reported that both Ablyazov and Zherimbetov were put on an international wanted list.

¶3. On March 2, Margulan Seisembayev, Chairman of the Board of Alliance Bank, said he expected National Welfare Fund Samruk-Kazyna to complete its takeover of the bank after Alliance secures waivers from its creditors. He did not specify the timing of the deal. On March 12, Kazakhstani Stock Exchange (KASE) suspended trading in the bank's common shares after they declined by more than 50 percent.

¶4. Kazkommertsbank must repay approximately \$1.3 billion in external debt in 2009, the bank's press office reported. This includes \$250 million due in June, \$500 million due in November, and

\$300 to be repaid in December 2009.

¶15. Nurbank named Marat Zairov, former deputy chairman of Halyk Bank, its new Chairman of the Management Board. Zairov outlined the new priorities of the bank, which will include expanding its small and medium enterprise and retail operations. Nurbank is owned by the oldest daughter of President Nazarbaev, Dariga Nazarbaeva; her son, 23-year-old Nurali Aliev, is the Chairman of the Board of Directors of Nurbank.

SAMRUK-KAZYNA UPDATES

¶16. Bonds issued by National Welfare Fund Samruk-Kazyna with a total value of 405 billion tenge (approximately \$2.7 billion) were listed on KASE on March 13. They are the first release of Samruk-Kazyna's bond issue program, totaling 750 billion tenge (about \$5 billion). Local experts say that pension funds and the National Fund could be the main buyers of the bonds.

¶17. Samruk-Kazyna plans to obtain export credit lines from Russia's VneshEconomBank and China's Export-Import Bank. According to Samruk-Kazyna's CEO Kayrat Kelimbetov, these funds will be used to implement investment projects in Kazakhstan, such as the construction of a bitumen plant, a sodium hydroxide production plant and a petrochemical complex.

UNEMPLOYMENT: A GROWING CHALLENGE

¶18. According to Deputy Minister of Labor and Social Protection Serik Abdenov, about 1,049 jobs will be cut in "the nearest future" in Kazakhstan. He said that in January 2009 unemployment grew by 0.3 percent, and the total number of jobless people was 580,000. According to official information provided by the State Statistics Agency, the unemployment rate was 6.9 percent in January 2009.

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¶19. In his annual address, President Nazarbayev issued an order to allocate 8.6 billion tenge (approximately \$57 million) from the state budget to create jobs in social services and support employment of youth.

2009 HARVEST PROJECTION

¶110. The Ministry of Agriculture forecasts the 2009 grain harvest to be at least 10 percent higher than last year. In 2008, Kazakhstan harvested 17.2 million tons of grain.

ECONOMIC STATISTICS

¶11. In 2008, JSC Food Corporation reported a net profit of 1,516 million tenge (about \$10.1 million), a 150% growth compared to 2007, when it earned 595 million tenge (approximately \$3.96 million) in ¶2007. Food Corporation is a subsidiary of National Holding Company "KazAgro" and specializes in grain trading and storage.

¶12. According to the State Statistics Agency, Kazakhstan's trade surplus declined 3.6 times over last year, from \$2.9 billion in January 2008 to \$0.8 billion in January 2009. Total foreign trade was \$4.4 billion, a decline of 41.6 percent compared to January ¶2008. Exports fell to \$2.6 billion, or 50.5 percent less than in January 2008; imports decreased 21.4 percent compared to January 2008 to \$1.8 billion. In January 2009, the main destinations for Kazakhstan's exports were Italy, China, Russia; its largest import partners were Russia, China, and Ukraine.

KAZAKHSTAN SEEKS CONTROLLING STAKE IN TRANS-CASPIAN PROJECT

¶13. Commenting on the Kazakhstan Caspian Transportation System (KCTS) on March 10, Minister of Energy and Mineral Resources Sauat Mynbayev said that Kazakhstan "will not approach this pipeline, formally or informally, unless we own at least 51 percent." He added that the Kashagan consortium and Chevron, representing Tengizchevroil, "put up a united front," but "we will not give up a controlling stake." In an interview with Russian Nezavisimaya Gazeta on March 11, Alexander Shtock, Director of Due Diligence for

the business consulting firm 2K Audit, speculated that "as long as Kazakhstan has other transportation options, Astana can impose tough requirements on its KCTS partners. If Chevron does not compromise, then the Trans-Caspian project might be put on hold. Russia, on the other hand, would also have to hurry up, as the Trans-Caspian project might slow down the expansion of the Caspian Pipeline Consortium (CPC) pipeline."

¶14. On March 5, Russian media reported that Kazakhstan's national oil and gas company KazMunayGas (KMG) established a subsidiary called KMG-TransCaspiy, which will manage the KCTS project. Mukhit Mazhenov, former Deputy General Director of KazTransOil, KMG's oil transportation subsidiary, was appointed General Director of KMG-TransCaspiy. Another former Deputy, Bulat Zakirov, was named Deputy General Director of the new company.

STATUS OF KAZAKHSTAN-CHINA GAS PIPELINE PROJECT

¶15. On March 5, Beimbet Shayakhmetov, General Director of the Asian Gas Pipeline Company (which is owned by KMG's gas transportation subsidiary KazTransGas and Trans-Asia Gas Pipeline Ltd, an affiliate of the China National Petroleum Corporation), said that \$2.5 billion of a projected total of \$7.5 billion has already been invested in the construction of the 1,300-km Kazakhstan-China gas pipeline. The gas pipeline is part of the Turkmenistan-Uzbekistan-Kazakhstan-China pipeline project. The first segment of the pipeline, which will begin at Turkmenistan's gas deposits developed by CNPC, is expected to be built by 2010 and will carry 3.5 billion cubic meters (bcm) of Turkmen gas. After the Chinese contractor builds the first of five gas compressors in the Kulan village of the Zhambyl oblast, the throughput capacity of the gas pipeline will reach 7.5 bcm a year. The construction of four additional gas compressors by 2012 will

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bring total annual capacity to 30 bcm.

KAZAKHSTAN RETURNS TO CENTRAL ASIAN POWER GRID

¶16. The Kazakhstan Electric Grid Operating Company (KEGOC) resumed its operations in parallel with the United Power System of Central Asia (UPS) on March 13. The power company withdrew from the grid on February 26 due to an imbalance between electricity generation and consumption among participating Central Asian countries.

THE ATYRAU PETROCHEMICAL PLANT PROJECT

¶17. On February 27, Visor Capital, a local investment company, announced that it had acted as a broker on behalf of an unnamed third party to acquire a 50 percent stake in Kazakhstan Petrochemical Industries (KPI), the project operator of the planned Atyrau Petrochemical Plant. Visor Capital and KMG Exploration Production, a KMG subsidiary which owns 51 percent of KPI, declined comment on the change in KPI's ownership structure. (NOTE: Prior to the transaction, the remaining 49 percent was owned by Sat&Co and Lyondell Basell Industries. END NOTE.) At a March 3 Cabinet meeting, Minister of Energy and Mineral Resources Sauat Mynbayev said Indian or other investors would participate in the project instead of Lyondell, which allegedly withdrew from the project. However, in a March 10 press release, Lyondell's president Just Jansz confirmed the company's "continued commitment and ongoing support to the KPI project." (NOTE: On March 20, Managing Director for Oil and Gas at Samruk-Kazyna Bolat Akchulakov confirmed that Lyondell will participate in the Atyrau Petrochemical Plant project, which is to be funded with equity (40 percent), and a syndicated loan (60 percent). END NOTE.)

NEW KAZMUNAYGAS STRATEGY FOR OFFSHORE CONTRACTS

¶18. Sunkar newspaper speculated on the new strategy of "official Astana" and KMG when choosing foreign partners. According to the newspaper, the new strategy will limit the number of offshore blocks offered to foreign partners to only one (blocks would no longer be combined under one exploration license). The government will sign contracts for the exploration of blocks located near the Kalamkas Sea oil deposit (e.g. Abay and Satpayev blocks). Moreover, the newspaper claimed that under the new strategy, Kazakhstan sought

Central and Eastern European assets from StatoilHydro in exchange for the Abai offshore block. Kazakhstan also reportedly stipulated in new contracts with ConocoPhillips (N Block), the Korean National Oil Corporation (Zhambyl block), and India's Oil and Natural Gas Corporation (Satpayev block) that these companies must participate in Kazakhstan's petrochemical projects.

SPECULATION CONTINUES AROUND MANGISTAUMUNAYGAS

¶19. A RusEnergy article predicted that by the end of March, India's Oil and Natural Gas Corporation (ONGC) would acquire the remaining stake in MangistauMunayGas (MMG). The article claimed that Indian participation "would secure a balance within Kazakhstan's oil sector, currently dominated by U.S. and Chinese companies."

Referring to an unknown source, RusEnergy suggests that MMG would be bought under a payment scheme similar to that used by CNPC to acquire the Shymkent oil refinery. The author speculated that ONGC would buy 100 percent of MMG and transfer a controlling stake back to KMG, which, in turn, would reimburse ONGC out of future revenues.

ONGC reportedly agreed, provided it gets a stake in the Satpayev block. (NOTE: During the January 23-26 visit of President Nursultan Nazarbayev to India, KMG and ONGC signed an agreement to explore the Satpayev block. END NOTE.)

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